

PRICE ONE PENNY

NOV 20 1916



The  
**Revolt of Protectionists  
in Germany  
Against their own Tariff**



Published by CASSELL AND COMPANY, LTD.,

La Belle Sauvage, Ludgate Hill, London, E.C.,

FOR THE

COBDEN CLUB, Caxton House, Westminster, S.W.

1910

70. VIII  
ANNO 1700

The  
Revolt of Protectionists  
in Germany  
Against their own Tariff



Published by CASSELL & COMPANY, LTD.,  
La Belle Sauvage, Ludgate Hill, London, E.C.,  
FOR THE  
COBDEN CLUB, Caxton House, Westminster, S.W.  
1910

1721

10. 10. 10. 10.  
10. 10. 10. 10.

# The Revolt of Protectionists in Germany Against their own Tariff

IN the summer of 1908 a strange rumour spread in the industrial circles of Germany. It was stated that a rather influential group of iron and steel manufacturers had become tired of Protection and had submitted to the Imperial Government a petition praying for the abolition of all import duties on pig-iron and iron semi-manufactures. The rumour was certainly startling, and, what is still more important, it turned out to be perfectly true. In fact, a few months later, in February of the following year, the same group, embracing fifty-six big firms engaged in the iron and steel trade, formally submitted the same petition to the Reichstag itself,\* and got the whole matter discussed in a manner which a few years back would have seemed impossible. The question raised by these firms actually was, whether the German iron and steel trade would not be much better protected by Free Trade than by what was called Protection; whether, in fact, Protection, so far from protecting, was not really damaging the industries in question. And this, one must remember, after just thirty years of experience of Protective duties and in face of the solemn declaration of

\* "Petition betreffend die Sistierung und spätere Aufhebung der Schutzzölle auf Roheisen, Schrott und Halbzeug an den hohen Reichstag zu Berlin." Meggen, January 29th, 1909 (to be quoted in the following as "Petition"). An account of the movement is also contained in the Consular reports on the trade and commerce of Frankfort for 1908 (No. 4325, Annual Series), pp. 117 and following, and of Düsseldorf for 1908 (No. 4283, Annual Series), p. 13.

the petitioners themselves that they were "convinced adherents of the Protective policy which had contributed so much to the prosperity of German industry."

What strange aberration had seized the minds of that particular group of "convinced" Protectionists that they should suddenly revolt against Protection? How did it come about that a powerful section of an industry whose prosperity has been depicted in such glowing colours by our own Tariff Reformers should, after thirty years, find the benefits of the Protective policy so irksome as to lead them to express the desire that they should be left to be enjoyed rather by others than themselves? Here is a story which deserves to be told for the benefit of our public in general and those engaged in the iron and steel trade in particular.

Let us, first, briefly describe the general conditions of the industry which is the subject of our tale, and for this purpose we can do no better than use the evidence supplied by Germans themselves—more particularly by the authors of the above-mentioned petition, who, in their anxiety to prove their case for the abolition of import duties on iron and steel, did not hesitate to speak with commendable frankness and to lift the veil from the mysteries of their trade.

According to them,\* then, the German iron and steel industry possesses such natural facilities for a prosperous development as no other iron and steel industry in Europe, not excluding the United Kingdom. Germany's coal deposits amount to 415,000,000,000 tons, as against barely one-half of that amount contained, according to their calculations, in the British coalfields; and of the other basic material of the iron and steel industry, iron ore, they claim to possess a store of some 2,200,000,000 tons,

\* "Zum Antrag betreffend Aufhebung der Schutzzölle auf Roheisen, Halbzeug und Schrott," Siegen, 1909 (to be quoted in the following as "Zum Antrag").

as against 1,000,000,000 tons which are deposited in the United Kingdom. Besides, the best of the British iron ore seems to have been already exhausted, and the working of the other deposits is becoming more and more expensive. Scotland, for instance, has to import nearly three-quarters of the ore needed for her iron industry, while in Cumberland the price of ore for hæmatite iron has, during the last twenty years or so, increased by more than 100 per cent. Even in the Cleveland district, where the deposits are very large, the output of iron ore, in spite of the increased application of labour, has of late considerably diminished, and is only able to meet about 60 per cent. of the local requirements. Altogether, between 1880 and 1906, the output of iron ore in the United Kingdom dropped from 18.3 million to 15.2 million tons. Not so in Germany. In the celebrated Minette district of the Grand Duchy of Luxemburg and Lorraine alone the output of iron ore increased between 1894 and 1906 from 7.8 million to 21.1 million tons; while in the latter year the total production of iron ore in Germany and Luxemburg amounted to 26.7 million tons. This shows that Germany can rely on her own ore much more largely than the United Kingdom, and if she still imports ore from abroad (in 1906 no less than 8.1 million tons, which is almost the same amount as that imported in the same year by the United Kingdom), it is solely due to the high freights on ore from Luxemburg-Lorraine to Westphalia, the centre of the coal and coke industry, and on coal and coke from Westphalia to Luxemburg-Lorraine.

In spite of this artificial obstacle to the proper utilisation of the natural facilities of the country, the authors of the petition are at pains to show that the cost of production of ore for the blast furnaces is much lower in Germany than in England, though in England,

especially in Cleveland, the ore and the coal are situated in the closest proximity. They estimate that the cost of extraction of the ore in Lorraine and Luxemburg did not exceed, during the last four or five years, the figure of 1s. 6d. to 2s. per ton on the spot, or 2s. to 2s. 6d. at the furnace. As the ore contains at least 30 per cent. of iron, the production of one ton of pig would require three tons of ore—value at the utmost 7s. 6d. As against that, the cost of ore per ton of pig in the Cleveland district, owing to its lower percentage of iron, is put down by our authorities at no less than 16s., which leaves an ample margin in favour of the German smelter, even if the cost of transport of coke to Lorraine-Luxemburg be as much as 6s. or 7s.

Still more considerable, according to the authors of the petition, is the difference in the cost of production of pig-iron itself in the two countries. They quote from Mr. J. S. Jeans, of the British Iron Trade Association, figures referring to 1903-4, and showing that whereas in the United Kingdom the production of Cleveland pig cost 40s. 10d. and that of hæmatite iron on the west coast cost 55s. 5d. per ton, in Germany the cost of pig in Lorraine amounted to 46s. 10d., and in Westphalia to 51s. per ton. The petitioners accept these figures as valid on the whole, also for the year 1908, but point out that Mr. Jeans made a simple arithmetical mistake in adding, for Germany, the different items which make up the total cost; in consequence of which the sum exceeded the real cost by 10s. in each case. In other words, the cost of Lorraine pig is really 36s. 10d., and that of Westphalian pig 41s., which are in both cases lower than the corresponding British cost. On an average, the petitioners declare, the cost of production of pig in the United Kingdom amounted in 1903 to between 46s. and 47s., and in Germany to 43s. per ton.

We do not wish to pin our faith to the absolute correctness of these figures. It is quite possible that the petitioners, in their zeal for the cause they were championing, may have somewhat exaggerated the cost of production in the United Kingdom; but it can scarcely be supposed that they have in any way minimised the corresponding figures for Germany. At any rate, the opponents of the petitioners, themselves powerful manufacturers associated in the celebrated Steel Works Union, were unable, in their counter memorandum,\* to controvert these figures by any other data than a simple quotation from a British Tariff Reform newspaper, which stated (also without bringing any proof) that "such are the natural and geographical disadvantages of Germany that iron and steel cannot be produced . . . so cheaply in that country as in Great Britain." We are inclined to think that the authors of the petition have given the German figure quite correctly; and without expressing any opinion as to whether the corresponding British figures be higher or lower, we are justified in accepting the view that the natural facilities of the German iron and steel industry are very great. That the Germans have known how to make good use of them is evident from the fact that between 1890—to go no further back—and 1907 the production of pig-iron in Germany increased from 4.5 million to 12.6 million tons, as against an increase during the same period in the United Kingdom of from 7.9 million to 10 million tons; and that the output of steel in Germany increased from 2.1 million to 12 million tons, as compared with the increase in the United Kingdom of from 3.5 million to 6.5 million tons.†

\* "Der Antrag der reinen Werke auf Aufhebung des Schutzzolles für Roheisen und Halbzeug," no date and no place of publication. Neither of the three documents is paginated.

† Parliamentary Paper (376) on Iron and Steel, issued in 1909.

The iron and steel trade of Germany is a great and, so far as figures go, a very prosperous industry. It is, however, also a highly protected industry. We leave altogether aside the question, whether or not the greatness and the prosperity of the iron and steel trade in Germany is due to Protection. We simply state the fact that great and prosperous as this industry is, it is at the same time most carefully—or, as our Tariff Reformers would say, “scientifically”—protected against foreign competition, as a glance at the text of the German Customs tariff would show, where it occupies no fewer than sixty-six “positions,” or clauses, with numerous sub-clauses.\* As the industry, like most modern industries, is widely ramified, and its innumerable branches are closely interdependent, the finished product at one stage serving as the material for another, the rates of import duties are, in accordance with that vaunted “science,” arranged in such a manner as to fall more heavily on the higher than on the lower stages of production, thus “protecting” each finished article more effectively than the unfinished which it incorporates. Thus, iron ore bears no import duty at all. It, together with coal, is the basic material of the entire industry and is admitted free. On the other hand, pig-iron (or, as the Germans call it, raw iron, which represents the result of the first manufacturing stage) bears an import duty of 1 mark per 100 kilogs, which is equivalent to 10 marks on a metric ton. Then follows the class of semi-manufactured iron, bars, rods, etc. These pay a duty of 15 marks per metric ton. The finished articles of the next class, the girders, the rails, the angle iron, etc., can only be imported under a duty varying from 20 to 50 marks per metric ton. Then we have a great variety of finer articles, which pay still higher duties, reaching, for example, in the case of steel

\* See Blue Book, Cd. 2414, on the New German Tariff, 1905, pp. 777-843.

pens, the high figure of 90 marks per ton. Thus the duties are nicely graduated so as to prevent foreign competition, and yet not to overburden the rising spiral of semi- and wholly-finished articles by too heavy duties on what constitutes in each case the material of manufacture. There is none of those clumsy methods of clapping on duties in a wholesale fashion of 5, 10 and 15 per cent., which serve in the case of our home-made Protectionists for "science." The Germans are nothing if not thorough, and when they say "science" it is so.

There is only one awkward thing about the ingenious science: it works at the expense of the home consumer. Of course, the "science" of Protection has a sovereign contempt for the consumer if he happens to be a countryman, though if the consumer, owing to the high prices, has to cut down his consumption, or, being a workman, enforces higher wages, the result is bound sooner or later to tell on the protected industry in a very unpleasant fashion.\* But the consumer very often happens to be also a fellow-manufacturer, who, though paying an enhanced price for his raw material, has to compete on the world's market on equal terms with his rivals who produce more cheaply. What becomes of the boon of Protection in such cases? The "scientists" of German Protection, when the latter was about to be introduced, were not blind to this possible disadvantage of their nostrum, but contended, like our own Tariff Reformers of to-day, that it was not likely to occur, since good profits at home would increase competition and ultimately bring down the prices to their natural level. "Granted,"

\* The Consular Report on the trade of Frankfort in 1908 contains a number of highly interesting facts on this head—especially the section on the Cost of Living, pp. 14-34. "As a result of the increased wages and the increased cost of raw material, some industries which used to be essentially German have already left Germany altogether," p. 32. See also the report of the Frankfort Consul-General for 1907, pp. 20-23.

declared that apostle of Protection, Frederick List,\* "that protective duties will for some time enhance the prices of the home manufactured goods, but they will in the future secure cheaper prices in consequence of home competition." This, again, was very ingenious. It meant that Protection would ultimately work out its own antidote and become neutralised. Apart, however, from the self-contradictory character of this theory, it was totally falsified by subsequent developments, which brought into existence certain agencies that have since then upset all the fine calculations of List and his fellow-scientists. These agencies are the celebrated industrial combinations known as syndicates and kartels.

Let us be frank. The tendency of industrial, commercial or financial concerns to combine for the maintenance of prices or regulation of production is as old and widespread as industry and commerce themselves are. From time immemorial the art of "cornering" products of popular consumption and of combining "in restraint of trade" have been known and extensively practised in all countries and all climes, under the most varied economic and fiscal conditions. They are not unknown in our own country in our own Free Trade days, as they are certainly well known in other countries more backward than ours and living under Protection. It is, however, clear as noonday that the primary condition for the success—nay, the possibility—of such combinations of industrialists or tradesmen is that the industry or trade in question should either be in the hands of a few or partake of the nature of a monopoly. In other words, that it should not be too much exposed to outside competition.

That is just the case with certain industries, and,

\* "Das nationale System der politischen Oekonomie." Second Edition. Stuttgart, 1842, p. 28.

above all, the coal and iron industries (which for our purposes can be taken as one industry) in Germany. Coal-mining and the heavier branches of the iron and steel trade are in the nature of things industries carried on on an extensive scale, and, therefore, concentrated in large and comparatively few concerns. Even in Free Trade countries they admit of being organised to some extent and of acquiring a more or less monopolistic character, enabling them to dictate their terms to the purchasing public. It is evident, nevertheless, that in these countries such dictation of terms to the public can only proceed within comparatively narrow limits, since any excess may result in the importation from abroad of the article whose price has been unduly enhanced. Not so in a Protected country like Germany, where the import duty is superadded to the cost of transport. There the combinations have an ampler margin on which to operate in keeping up the price, and, therefore, are encouraged to spring into existence, to consolidate, and to persist in their policy of manipulating prices. Add to this, in the case of Germany, the spirit of organisation and discipline which permeates the nation in all domains of public and private life, and you have the explanation why in that country the syndicates and kartels have assumed such classical dimensions and classical forms. There is not there a single industry of national and international importance which has not for one or other, or for several of its branches, one or more syndicates. It was estimated in 1907 that there were in Germany no fewer than 347 industrial syndicates, including 80 in the iron and steel trades, 86 in the textile trades, 19 in the paper trade, 12 in the leather and shoe industries, 20 in the woodworking trades. etc.\* As for coal, which in Germany is protected not by import duties but

\* Report on Frankfort for 1907, p. 64.

by high railway freights from the ports to the interior,\* it enjoys the patronage of the famous Westphalian Coal Syndicate, which controls 56 per cent. of the total output of coal and is a combination of 79 coal-mining concerns.†

It is these organisations, reared and fostered under the kindly shelter of a high protective tariff, which have played havoc with all the beautiful dreams of List and his fellow-apostles. "Our protective duties," says a prominent historian of German Protection,‡ are no longer educative in the sense in which they were demanded by Frederick List, since the industries concerned are in an overwhelming majority of cases quite capable of coping with foreign competition. The protected German industries embrace for the most part such branches of industry in which production on a large scale predominates and to which the protective duties give, to quite an exceptional extent, the possibility of concluding agreements or forming actual syndicates and kartels, and by these means dictating the prices to the home consumers." Indeed, if we examine over a lengthened period of time the prices of some well-known standard article in Germany and on the world's market (which for all practical purposes is synonymous with the Free Trade British market), we shall find that not only are the German prices higher, but also higher on the whole by the entire amount both of the import freights and import duties.§ This means that the nice words with

\* Report on Frankfort for 1907, pp. 74-75.

† Report on Frankfort for 1907, p. 71. On January 1st of this year the membership of the Coal Syndicate stood at 70 (*Kölnische Zeitung*, May 20th, 1910).

‡ Helfferich, "Handelspolitik," 1901, p. 158.

§ The following table (taken from Vogelstein's "Die Industrie der Rhein-provinz," 1902, pp. 68-72, and "Die rheinisch-westphalische Montan- und Eisen-industrie," of the same author, pp. 127, 128) will illustrate this. In it are compared Rhenish pig-iron, No. III (Giessereiroheisen) with Middlesbrough G.M.B.; one shilling is taken as equal to one mark, but as against this, one

which the economists and statesmen once upon a time tried to butter the Protectionist parsnip have turned out a mere snare and delusion. Competition, from which so much was expected, has been eliminated by means of the syndicates, and the prices of the articles thus syndicated have been increased to those, who use them for further manufacture, to the full extent of the import duties plus freight.

What, then, is the position of these dependent industries—the manufactures of pig and semi-finished articles, which depend on a cheap and abundant supply of coal, and of the manufactures of finished articles, which, in their turn, have to depend on a cheap and abundant supply of pig and semi-manufactured iron? It is evident that as regards the home market their only salvation lies in forming syndicates of their own so as to be able to keep their own prices at a high level, and by these means make the next or ultimate consumer pay for the costly material which they have to use in their manufacturing processes. This is actually done so far

metric ton is taken as equal to one English ton. The prices (in marks per ton) relate to the beginning of the years.

#### BRITISH AND GERMAN PIG-IRON.

		British.		German.		Excess of German price over British.
1895	.. ..	35 to 35.50	..	54	..	18.50 to 19.00
1896	.. ..	36.25 to 36.50	..	56	..	18.50 to 19.75
1897	.. ..	41.00	..	60	..	19
1898	.. ..	40.50	..	60	..	19.50
1899	.. ..	43.75	..	62	..	18.75
1900	.. ..	67.50	..	92	..	24.50
1901	.. ..	50.50	..	98	..	47.50
1902	.. ..	44	..	59	..	15
1903	.. ..	46.75 to 47	..	61	..	14
1907 (Sept.)	.. ..	56.25	..	78	..	21.75

The duty on pig-iron is 10 marks per ton. If we add that the freight from Middlesbrough to Hamburg in December, 1900, was 5.50 marks, and to Rotterdam and Antwerp 3.75 and 4.75 up to 5.00 marks per ton, and the freight by water from those ports to the Ruhr district in Rhenish-Westphalia was about 6 marks, it will be seen how nicely balanced are the German prices over the world's market prices, increased by the amount of duty and freight.

as it is possible. Thus, the production of a whole series of half-finished articles, including form iron, ingots, slabs, billets, as well as certain heavy finished articles, such as steel rails, is controlled by a powerful syndicate, known as the Steel Works Union, which consists of thirty-one big works in Rhenish-Westphalia and elsewhere.\* By means of this combine the industries engaged in the production of these articles are able not only to make use of the import duties by which their product is protected against foreign competition, but also to shift the high price which they pay for coal on to the industries engaged in the next stage of production, the rolling mills. But here the capacity for syndication practically comes to an end, since the product of the rolling mills is so varied and specialised that a really effective combination is well-nigh impossible. At one time or another some branch of the rolling mill industry, such as the rolled wire manufacture, would combine within certain limits, but even then their control over the market, owing to the great number of them and the presence of a large number of small concerns, could not be effective.† There is yet another circumstance which will be mentioned subsequently, and which prevents them from forming an all-embracing syndicate, but the great differentiation of production at this stage is alone sufficient to explain the fact why the process of syndication stops short of the manufacture of finished products. It is, then, this stage of iron and steel manufacture which has to bear the entire brunt of the twin policy of Protection and syndication. When the times are good and the prices rule high, they are often able, under the protection of the Customs tariff, to get from the consumer enough to pay them for their enhanced cost of production,

\* Report on Frankfort for 1907, p. 91.

† "Petition"; also Report on Frankfort for 1908, p. 121, and following.

but should the state of the market be not so good, no amount of Protection can assist them in keeping up the prices at the necessary level. In such circumstances the high cost of material takes full effect. The manufacturers concerned are neither able to stem the tide of the crisis once it has set in nor to quicken the pace of the improvement of the market as soon as the crisis is over. This is the reason why the recent depression lasted in Germany so long and why the recovery has been so slow.\*

But the difficulties which are thus created for the finishing industry in the home market are insignificant in comparison with those which they have to meet in the foreign markets. It stands to reason that having to buy his raw material at home prices and to sell the finished article abroad at the world's market prices, the manufacturer of the latter cannot possibly compete with his foreign, and more especially his English, rival, who obtains his raw material also at the world's market price. Indeed, it happens more often than not that this material is obtained by the foreigner from the very same German syndicate which sells its semi-finished article to the finishing manufacturer in Germany at the enhanced Protectionist price, but has to sell it abroad at the ordinary world's market price, and, if needs be (as often occurs in times of depression), even below it. In such cases we get a situation which borders upon the comical. For it is surely comical that a British firm, as we are told,† should be able to secure a contract for the construction of a gasometer at Copenhagen against all German competitors simply because it was able to obtain from Germany the necessary iron more cheaply than the Germans themselves. All through the period of 1898-1902

\* Report on Frankfort for 1908, pp. 11, 12, 36 and 37.

† Report on Frankfort for 1907, p. 68.

the Westphalian Coke Syndicate, as subsequently became known through the proceedings in a court of law, was selling coke to a number of Austrian and Bohemian ironworks at 8 marks 50 pfennigs per ton, while its customers in Germany were charged 17 marks—*i.e.*, just double.\* In the years 1906-7 Austrian works were still able to get German coal at 114 to 117 marks per 10 tons, while German works were charged 160 and 170 marks.† At the beginning of 1909 the Union of German Industrialists complained that the Coal Syndicate sold coal in Belgium at prices from 25 to 30 per cent. below those charged on the home market‡; and in 1902 the Düsseldorf Chamber of Commerce pointed out that "German semi-finished iron stood on the British market at 10s. (per ton) lower than the British, in consequence of which the German export of the finished product (rolled wire) was considerably reduced."§ "It has often been stated," remarks one of the best authorities on the economic conditions of Germany,|| "that it was good business to buy German coal in Switzerland or Holland and re-import it into Germany"; and at the Government Commission on syndicates and kartels, which sat a few years ago, one of the representatives of the rolling mills, addressing the members of the Pig-Iron Syndicate, said: "As for the markets abroad, there is only one thing, gentlemen, which I beseech you to do—treat us, your countrymen, as you do foreigners!"¶

Yet even this evil, great as it is, recedes to the background before another, to which the syndicates in raw and semi-finished goods give rise. We mean the evil

\* Vogelstein, "Die Industrie der Rheinprovinz." Stuttgart, 1902, pp. 78-79.

† Report on Frankfort for 1908, pp. 98-99.

‡ Report on Frankfort for 1908, *ib.*

§ Gothein, "Internationale Regelung der Eisenzölle," 1906, p. 27.

|| Sayous, "La crise allemande," 1903, p. 154.

¶ Report on the "kontradiktorische Verhandlungen über deutsche Kartelle," Halbzeugverband, Heft 6, p. 618.

created by the so-called "mixed" works. That big blast furnace works should acquire a coal mine, or a large rolling mill should work in conjunction with blast furnaces of its own, is very natural and marks a tendency observable even in a Free Trade country like ours. It is, however, only under Protection and by the instrumentality of the syndicates that the tendency acquires enormous dimensions and realises itself in a manner which is pernicious to the entire industry concerned.

The process is here a double one. On the one hand, the industries dependent on the syndicates for their raw or semi-manufactured material seek to emancipate themselves from the high prices which these syndicates impose upon them, by acquiring mines or works, as the case may be, which produce that material. This may occur in kindred or in more remotely connected industries. The acquisition recently by the synthetic aniline dye combine of a coal mine in Westphalia for more than 17,000,000 marks, in order to be independent of the Coal Syndicate, is an instance of the latter kind.\* The numerous growth of so-called Hütten-Zechen—*i.e.*, foundry-mines—is an instance of the former kind.† In the case of more remotely connected industries, the subsidiary concerns generally remain outside any combination; but in the case of kindred industries, they either voluntarily, or for a consideration, join the prevailing syndicate.‡ Thus, in the case of the Hütten-Zechen, the majority of the mines are participants in the Westphalian Coal Syndicate. By this means they are able to sell their coal to outsiders through the syndicates at enhanced prices, while supplying it to the foundries, with which they are connected, at cost price. Parallel with

\* Report on Frankfort for 1907, p. 74.

† A good account of these combines is contained in the Report on Frankfort for 1906, No. 3847, Annual Series, pp. 53-54, and for 1907, p. 72.

‡ See the Report on Frankfort for 1908, pp. 109, 110.

this, another and still more important process goes on, tending towards the same result.

The syndicates, though primarily concerned with the regulation of prices, must naturally guard against an excessive supply of their products, for which purpose they also have to regulate their production. This is achieved by fixing in advance the "figure of participation"—that is, the amount of the article which each member has to hand over for sale to the syndicate; and as the members are not allowed to sell their products outside the syndicate, this theoretically means that the figure of participation also fixes the limits of production in each individual case. This, of course, is felt by the larger works as a very great hardship, and by the smaller as a bar towards further expansion. Just as we write these lines we read an announcement in the German press\* to the effect that the Westphalian Steel Works at Bochum, belonging to the Steel Works Union, will not be able to pay any dividends for the current year in consequence of the fact that its figure of participation in the Union would not permit them to extend their production and so cheapen its cost. Generally, however, those concerns which have the necessary means find a way out of the difficulty, either by artificially extending their works before the figure of participation is fixed, which involves a good deal of speculation and other disadvantages,† or, what is a better method, by adding to their proper business the next stage in the production of the article, and thus turning their works into mixed works.‡ They are then able to expand their primary production indefinitely, supply their quota to the syndicate, and use the rest of the primary article in the secondary works,

\* *Kölnische Zeitung*, May 10th, 1910.

† Report on Frankfurt for 1907, p. 89.

‡ Report on Frankfurt for 1908, pp. 13, 14.

which represent a higher stage of the manufacturing process.

It is easy to see what effect these "mixed" concerns exercise upon the market. Being able to obtain for their advanced processes the raw material at its cost of production, they are in a position to undersell the "pure" works—that is, those which are engaged in these advanced processes only and have to purchase their material at the syndicated prices; and as they are, in the nature of things, managed by large capitalists, and in consequence exercise a predominating influence in their syndicates, they take good care that the price policy of the latter should be maintained rigorously. "It is not only with a view to getting the best value possible for its pig or semi-finished iron," writes the historian of the Rhenish-Westphalian iron industry,\* "that the mixed concern manipulates the syndicate for the maintenance of prices at a high level, but above all with a view to being in a position to produce more cheaply than its (pure) competitor. In contradistinction to other producers, it is not so very much interested that its customer should not go to the wall, since in such a case it would be able to extend its own production of finished goods." Accordingly, we see that throughout the year 1907, in spite of all the protests of the "pure" rolling mills, the Steel Works Union did not lower its prices on semi-manufactured iron, although the price of the more finished product, like bars, had already dropped from 132 to less than 109 marks per ton.† The reason was that the mixed concerns which were members of the Union were still able to produce without a loss at the latter figure, and did not feel called upon to assist their rivals in the "pure" rolling industry. The West-

\* Vogelstein, "Die rheinisch-westphalische Montan- und Eisenindustrie, p. III.

† Report on Frankfort for 1907, p. 93.

phalian Coal Syndicate did not lower its prices even in the year following, as the Hütten-Zechen still obtained their coal from their own mines at prices which enabled them to stand the strain of the depression.\* "At present," we read in a remonstrance by the rolling mills of Hagen, in 1907,† "at present the German sheet-iron industry works under the most unfavourable conditions at home, nor can it meditate any export. If this state of things is allowed to continue, a number of concerns will have to go down. . . . At home the base price for fine sheet-iron has been reduced by the large mixed concerns to 140 marks per ton and less, a price at which the pure rolling mills find themselves considerably out of pocket, but which the mixed concerns, with their own coal and their own half-finished goods, are well able to stand." The authors of the petition to the Reichstag also point out‡ that up to the very end of 1907 the price of semi-finished iron (in this particular case ingots) was kept by the Steel Works Union at 102 marks 50 pfennigs, while its members, the mixed concerns, were selling bars at 105 marks. Yet the cost of converting ingots into bars, according to the evidence before the Commission on Syndicates and Kartels, was not less than 25 marks per ton! Later on the union lowered the price of ingots down to 94 marks, yet its members were selling bars at 95 to 100 marks. Again, steel billets, from which the finer bars are made, were sold by the Union at 110 marks, and it was a common saying that it was more profitable to make billets out of bars than to make bars out of billets! Thus "the syndicates are for the larger and richer concerns no longer what they originally were, namely, bodies constituted to regulate the market of raw materials for the purpose of a

\* Report on Frankfort for 1908, pp. 96, 97.

† Report on Frankfort for 1907, p. 79.

‡ "Zum Antrag."

lucrative sale. They have to-day become the means rather by which the more important works secure a dominating position also in the market of finished articles.\*

To what extent this is true is shown by the most remarkable fact that the Steel Works Union, now, in the absence of the Pig-Iron Syndicates, the most powerful combination in the iron and steel trade, though regulating the prices, as we have seen, not only of the half-finished material, but even of some of the heavy product of the rolling mills, like steel rails and form-iron, nevertheless refuses to syndicate the other products of the rolling mills (practically all except bar-iron and rolled wire) which its mixed concerns manufacture. Yet these non-syndicated products of the rolling mills represent, according to the estimate of the authors of the petition to the Reichstag,† a mass of nearly five million tons per annum, value on the German market (that is, the world's market price plus freights and duty) of 100 million marks. How is this self-denying policy to be explained? What is the reason for this refusal of the mighty Steel Works Union to take under its protecting arm the remainder of the product of the rolling mills, and to put into the pockets of its members an additional sum of 100 million marks by eliminating competition from this domain as it has done in the others? The reason is simple: rather will the mixed works which are members of the Union themselves lose 100 million marks per annum than assist their rivals of the "pure" works by extending the benefits of the syndicate to their product. This is no longer self-protection by means of the syndicate, but war against the weaker members of the same industry, with the syndicate acting as an engine of destruction. The same object is aimed

\* Report on Frankfort for 1907, p. 69.

† "Zum Antrag."

at by the gradual reduction of the output of semi-finished material which is observable of late, combined with the most striking increase in the production of finished articles.\* To the policy of unfair competition and withdrawal of support is added that of artificial starvation—all directed by the big fish against the smaller fry.

Without entering into further particulars as to how this policy reacts upon the position of the pure works in the foreign market,† we see quite clearly the extraordinary situation which has been created for the German iron and steel industry by Protection-cum-syndicates. As has been well put by our Consul-General in Frankfort,‡ Protection has fostered syndicates, and the syndicates are now fostering giant concerns which, having first expanded in a “vertical” direction, that is, along the ever-rising spiral of the consecutive phases of manufacture from semi-finished to wholly-finished articles, are now also expanding “horizontally” by killing off their rivals at each stage of manufacture and absorbing them and their trade. In other words, Protection has produced in Germany, as in the United States, a number of octopi tending to smother in their coils every independent producer, and to turn into formidable trusts. “The syndicates,” says our Consul-General in Frankfort,§ “which at one time were deemed the best guarantees against the system of trusts because they at first seemed to guarantee the continued existence of economically weaker concerns in line with the more important, are now, on the contrary, assisting those more important concerns in their trust-like development.” And

\* “Zum Antrag”; also Report on Frankfort for 1907, p. 91.

† An interesting instance is quoted in the “Petition” of the influence of the policy of the mixed concerns on the exports of the German pure rolling mills. Three big rolled-wire mills were established in the Minette district of Luxemburg whose productivity proved so great that they began to export abroad enormous quantities of wire at low prices with the result that, for example, the Belgian wire-drawing and wire-tack mills, were able to oust out from the Belgian market their German competitors who were using the same material, but at the syndicated price. The output of the Belgian mills, which only a few years back amounted to 1,000 tons per annum, suddenly leapt up to 30,000 tons.

‡ Report on Frankfort for 1908, p. 14.

§ Report on Frankfort for 1907, p. 69.

he mentions,\* as a case in point, the career of the Gelsenkirchen works, the chief member of the Westphalian Coal Syndicate. It employs 44,343 workmen and 1,705 officials, and supplies to the syndicate more than 11 per cent. of its coal. It can produce, however, much more than it hands over to the syndicate, and so already in 1904 it acquired blast furnaces and even a rolling mill, and became also a member of the Steel Works Union. But even this expansion could not absorb all its producing energies, and so in 1908 it acquired a big piece of land near Esch, and is now erecting there six additional blast furnaces, with corresponding steel works and rolling mills, besides having purchased a share in some iron ore deposits. This is a trust in the making, bred and fostered by the syndicates and Protection.

Protection has thus turned into its very opposite, and it is not surprising that the innumerable concerns which see their existence thus threatened begin to cry out in despair. For a long time they were content to receive from the syndicates doles-in-aid, called export bounties, which permitted them to make a stand at least in the foreign markets.† But apart from the fact that even in the best of times they never were quite adequate, the powerful mixed works, which dominate the syndicates, are becoming more and more reluctant to render this aid to their rivals.‡ Again, the remedy was tried to induce the Governments to grant reduced railway freight rates, but this, too, proved insufficient; besides that, Governments are themselves rather fearsome to do anything unpleasant to the big magnates.§ And so the pure rolling mills and the Siemens-Martin works, which use as their

\* Report on Frankfort for 1908, pp. 122, 123.

† Report on Frankfort for 1906, p. 61; for 1907, pp. 75 and 95; also W. Lotz, "Sonderinteressen" (in "Volkswirtschaftliche Zeitfragen," Heft 187), pp. 19, 20. In their reply to the Petition, the Steel Works Union make a great point of their generosity in granting these export bounties, which they call "Geschenke"—"presents." In reality they are actuated in this policy merely by a desire to ease the home market in order to be able to sustain the prices at a high level.

‡ See the complaints in the "Petition."

§ Report on Frankfort for 1907, p. 75; for 1906, p. 55.

raw material old and scrap iron, have come to the conclusion that the only salvation lies in the introduction of Free Trade in pig, old and semi-manufactured iron. "We," they declared,\* "are worse off under the protective system than we would have been under Free Trade. . . . As palliative measures will scarcely attain our object, since the combines would be able to circumvent them and put them out of action, the only efficient remedy consists in doing away with the basis on which these great evils have been formed." Thus, after thirty years of very mixed experience, the independent iron and steel producers of Germany have arrived at the conclusion that Free Trade is their only chance of surviving.

We do not pretend to know what chance, if any, this unfortunate section of manufacturers have in bringing their agitation in favour of Free Trade to a successful issue. Though the Government and the Reichstag have so far turned a deaf ear to their petitions, things have a knack of ending differently than they look at the beginning. In our own case, was it not Adam Smith himself who wrote: "To expect that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it; not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it"?† What seems now Utopian in the case of Germany may also come to be true there as it came to be true in this country. But however that may be, the lesson which we are now offered in Germany is of the utmost value to us; it shows us our own future should we decide to follow our British Lists and other apostles of Protection. Protection will breed syndicates, syndicates will breed trusts, and all independent producers in our great iron and steel trade will be squeezed out of existence.

\* "Petition."

† "Wealth of Nations," Book IV., ch. II., pp. 435, 436, (ed. by Mr. Cannan.)

# COBDEN CLUB PUBLICATIONS.

---

**The Book of the International Free Trade Congress.**  
Price 1s. By post, 1s. 4d.

**Tariff Makers: Their Aims and Methods.** A Sequel to  
Fact v. Fiction. Price 1s.

**Fallacies of Protection:** Being Bastiat's "Sophismes Economiques," translated by Dr. STIRLING, with an Introductory Note by the Rt. Hon. H. H. ASQUITH, M.P. Price 1s. net.

**Insular Free Trade, Theory and Experience.** By RUSSELL REA, M.P. 6d.

**The Case against Protection.** By E. COZENS COOKE. 3d.

**The "Scientific" Tariff: An Examination and Exposure.**  
Price 3d.

**Cobden's Work and Opinions.** By LORD WELBY and Sir LOUIS MALET. Price 1d.

**Things Seen and Things Not Seen.** Translated from the French of F. BASTIAT. Price 1d.

**Shipping and Free Trade.** By RUSSELL REA, M.P. Price 3d.

**The Lessons of History on Free Trade and Protection.** By Sir SPENCER WALPOLE. Price 2d.

**The Colonial Conference: The Cobden Club's Reply to the Preferential Proposals.** Price 6d.

**What Protection Does for the Farmer and Labourer.**  
By T. S. LEADAM. Price 2d.

**Fact v. Fiction in Two Open Letters to Mr. F. E. Smith, M.P., from Henry Vivian, M.P.** Price 1d.

**COLDEN**

UNIVERSITY OF CALIFORNIA LIBRARY  
BERKELEY

V.5

---

**Political Economy and Fiscal Policy.** By Prof. BRENTANO  
of Munich. Price 1d.

**The Revolt of Protectionists against Protection  
Germany.** Price 1d.

**The Effect of Protection on the Standard of Living in  
Germany.** Price 1d.

**The Influence of Protection on Agriculture in Germany.**  
Price 1d.

**The Effect of Tariffs on Unemployment.** By AN ECONOMIST.  
Price 1d.

**How Protection Grows.** By G. H. PERRIS. Price 1d.

**Protection and Corruption.** By G. H. PERRIS. Price 1d.

**The Fiscal Policy of International Trade.** Being a Summary  
of the Memorandum by Prof. Alfred Marshall, published as  
a Parliamentary Paper in 1908. By J. M. ROBERTSON, M.P.  
Price 1d.

**Imports and Employment.** An Economic Note. By the Right  
Hon. RUSSELL REA. Price 1d.

**The Empire Aspect of Preference.** By Senator PULSFORD.  
Price 1d.

U. C. BERKELEY LIBRARY



C065406326

